

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input type="checkbox"/> Other				Local Government Name		County	
Audit Date		Opinion Date		Date Accountant Report Submitted to State:			

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ Yes ☐ No 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ Yes ☐ No 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☐ Yes ☐ No 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ Yes ☐ No 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ Yes ☐ No 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ Yes ☐ No 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ Yes ☐ No 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ Yes ☐ No 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ Yes ☐ No 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.			
Reports on individual federal financial assistance programs (program audits).			
Single Audit Reports (ASLGU).			

Certified Public Accountant (Firm Name)				
Street Address		City	State	ZIP Code
Accountant Signature			Date	

SAGINAW HOUSING COMMISSION

Financial Statements

June 30, 2004

Audited by

JOHN C. DIPIERO, P.C.

Certified Public Accountant

TABLE OF CONTENTS

	<u>Page</u>
Management Discussion and Analysis	i
Independent Auditor's Opinion	ii
<u>FINANCIAL STATEMENTS</u>	
Combined Statement of Net Assets	2
Combined Statement of Income, Expenses, and Changes in Net Assets	3
Combined Statement of Cash Flows	4
Notes to Financial Statements	5
General Comment	11
<u>SUPPLEMENTAL DATA</u>	
Combining Balance Sheet	13
Combining Statement of Income and Expenses	14
Schedule of Expenditures of Federal Awards	15
Status of Prior Audit Findings	17
Report on Compliance Applicable with Requirements to Each Major Program and on Internal Control over Compliance in Accordance with OMB Circular A-133	19
Report on Compliance and on Internal Control over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards	20
Schedule of Findings and Questioned Cost	21
Finding:	
03-2 Unauthorized Land Acquisition	23
04-1 Tenant Accounting Discrepancies- Low Rent	25
04-2 Tenant Accounting Discrepancies- Section 8	26

**SAGINAW HOUSING COMMISSION
MANAGEMENT'S DISCUSSION AND ANALYSIS
FYE JUNE 30, 2004**

The Saginaw Housing Commission's (SHC) management's discussion and analysis is designed to (a) assist the reader in focusing on significant financial issues, (b) provide an overview of SHC's financial activity, (c) identify changes in SHC's financial position (its ability to address the next and subsequent year challenges), and (d) identify individual fund issues or concerns.

The Management Discussion and Analysis is new, and will now be presented at the front of each year's financial statements.

Since the Management's Discussion and Analysis (MD&A) is designed to focus on the current year's activities, resulting changes and currently known facts, please read it in conjunction with SHC's financial statements.

FINANCIAL HIGHLIGHTS

- * SHC's net assets increased by \$1,211,339 (or 6.2%) during 2004. Since SHC engages only in business-type activities, the increase is all in the category of business-type net assets. Net Assets were \$19,604,949 and \$20,816,288 for 2003 and 2004 respectively.
- * The business-type activities revenue increased by \$816,113 (or 7.8%) during 2004, and were \$10,410,831 and \$11,226,944 for 2003 and 2004 respectively.
- * The total expenses of all SHC programs decreased by \$179,362 (or 1.7%). Total expenses were \$10,452,424 and \$10,273,062 for 2003 and 2004 respectively.

The primary focus of SHC's financial statement (summarized fund-type information) has been discarded. The new and clearly preferable focus is on both the SHC as a whole (SHC-wide) and the major individual funds. Both perspectives (SHC-wide and major fund) allow the user to address relevant questions, broaden a basis for comparison (year to year or PHA to PHA) and enhance SHC's accountability.

SHC-Wide Financial Statements

The SHC-wide financial statements are designed to be corporate-like in that all business type activities are consolidated into columns which add to a total for the entire housing commission.

These Statements include a Statement of Net Assets, which is similar to a Balance Sheet. The Statement of Net Assets reports all financial and capital resources for SHC. The Statement is presented in the format where assets, minus liabilities, equals "Net Assets", formerly known as equity. Assets and liabilities are presented in order of liquidity, and are classified as "Current" (convertible into cash within one year), and "Non-current".

SHC-wide financial statements also include a Statement of Revenues, Expenses, and Changes in Fund Net Assets (similar to an Income Statement). This Statement includes Operating Revenues, such as rental income, Operating Expenses, such as administrative, utilities, maintenance, depreciation, and Non-Operating Revenue and Expenses, such as grant revenue and investment income.

The focus of the Statement of Revenues, Expenses and Changes in Fund Net Assets is the "Change in Net Assets", which is similar to Net Income or Loss.

Fund Financial Statements

Traditional users of governmental financial statements will find the Fund Financial Statements presentation more familiar. The focus is now on Major Funds, rather than fund types. The SHC consists of exclusively Enterprise Funds. Enterprise funds utilize the full accrual basis of accounting. The Enterprise method of accounting is similar to accounting utilized by the private sector accounting.

Many of the funds maintained by SHC are required by the Department of Housing and Urban Development (HUD). Others are segregated to enhance accountability and control.

SAGINAW HOUSING COMMISSION FUNDS

Convention Public Housing - Under the Conventional Public Housing Program, SHC rents units that it owns to low-income households. The Conventional Public Housing Program is operated under an Annual Contributions Contract (ACC) with HUD, and HUD provides Operating Subsidy and Capital Grant funding to enable the PHA to provide the housing at a rent that is based upon 30% of household income.

The Conventional Public Housing Program also includes the Capital Fund Program and New Development Program, which are the primary funding sources for physical and management improvements to SHC's properties.

Housing Choice Voucher Program - Under the Housing Choice Voucher Program, SHC administers contracts with independent landlords that own property. SHC subsidizes the family's rent through a Housing Assistance Payment made to the landlord. The program is administered under an ACC with HUD. HUD provides Annual Contributions Funding to enable SHC to structure a lease that sets the participant's rent at 30% of household income.

Other Non-major Funds - In addition to the major funds above, SHC also maintains several non-major funds. Non-major funds are defined as funds that have assets, liabilities, revenues, or expenses that have less than 5% of SHC's total assets, liabilities, revenues, or expenses. Other Non-major funds consists of the following:

Supportive Housing Program - a grant program funded by HUD is designed to promote the development of supportive housing and supportive services, including innovative approaches to assist homeless persons in the transition from homelessness, and to promote the provision of supportive housing to homeless persons to enable them to live as independently as possible.

Shelter Plus Care Program - a grant program funded by HUD is designed to link rental assistance to supportive services for hard-to-serve homeless persons with disabilities (primarily those who are seriously mentally ill; have chronic problems with alcohol, drugs, or both; or have acquired immunodeficiency syndrome (AIDS) and related diseases) and their families. The program provides grants to be used for rental assistance for permanent housing for homeless persons with disabilities.

Youth Violence Prevention Program - a grant program funded by HUD is designed to reduce the prevalence of violence and drug activity among youth and young adults in targeted public housing communities through the implementation of prevention, intervention, and treatment services for youth who have been exposed to child abuse, partner abuse, witnesses of crime, drug activity, and gang activity.

Resident Opportunities and Self Sufficiency Program - a grant program funded by HUD is designed to provide funding for the employment and support of service coordinators in public housing developments designated for the elderly and persons with disabilities. Service coordinators help residents obtain supportive services from the community that are needed to enable independent living and aging in place.

FINANCIAL CONTACT

The individual to be contacted regarding this report is as follows:

Duane L. Walker
Executive Director
Saginaw Housing Commission
P.O. Box 3225
Saginaw, Michigan 48605

tele # 989-755-8183 ext 137
fax # 989-755-8161 e-mail: dwalker@saginawhousing.org

SHC-WIDE STATEMENT

Statement of Net Assets

The following table reflects the condensed Statement of Net Assets compared to prior year. SHC is engaged only in Business-Type Activities.

TABLE 1

STATEMENT OF NET ASSETS

	<u>2004</u>	<u>2003</u>
Current and Other Assets	2,121,891	1,961,050
Capital Assets	<u>18,694,397</u>	<u>17,643,899</u>
Total Assets	20,816,288	19,604,949
Current Liabilities	999,112	877,749
Long-Term Liabilities	<u>283,089</u>	<u>211,073</u>
Total Liabilities	1,282,201	1,088,822
Net Assets:		
Invested in Capital Assets, Net of Related Debt	18,514,208	17,643,899
Unrestricted	<u>1,019,879</u>	<u>872,228</u>
Total Net Assets	20,816,288	19,604,949

Major Factors Affecting the Statement of Net Assets

Current assets were increased by \$160,841, current liabilities were increased by \$121,363.

Capital assets also changed significantly, increasing from \$17,643,899 to \$18,694,397. The \$1,050,498 increase may be attributed primarily to additional new construction costs from MI 6-13 and capital fund program expenditures.

TABLE 2

The following schedule compares the revenues and expenses for the current and previous fiscal year. SHC is engaged only in Business-Type Activities.

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS

	2004	2003
Revenues		
Tenant Revenue - Rents & Other	1,282,341	1,290,704
Operating Subsidies & Grants	7,402,453	7,429,959
Capital Grants	2,400,888	1,536,161
Investment Income	11,907	30,219
Other Revenues	<u>129,355</u>	<u>123,788</u>
Total Revenues	11,226,944	10,410,831
Expenses		
Administrative	1,206,216	1,249,135
Tenant Services	5,619	27,217
Utilities	583,144	537,139
Maintenance	1,014,867	1,205,353
Insurance	148,878	134,361
PILOT	52,733	74,797
Other General	921,288	1,018,869
Extraordinary Maintenance	14,534	26,459
Casualty Losses	(68,460)	
Housing Assistance Payments	4,893,549	4,788,252
Depreciation	<u>1,500,694</u>	<u>1,390,842</u>
Total Expenses	10,273,062	10,452,424
Net Increase or (Decrease)	953,882	(41,593)

Major Factors Affecting the Statement of Revenue, Expenses and Changes in Net Assets

Tenant revenue declined. This reduction was primarily due to vacancies within SHC properties.

Operating Subsidies, Grants, and Capital Grants increased substantially. This increase was primarily due to a higher level of activity in the areas of capital grants with modernization and construction for MI 6-13.

Total expenses decreased due to staff vacancies and implementation of various other cost savings.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

As of year end, SHC had \$18,694,397 invested in a variety of capital assets as reflected in the following schedule, which represents a net increase (addition, deductions, and depreciation) of \$1,050,498 or 6% from the end of last year.

TABLE 3

CAPITAL ASSETS AT YEAR-END (NET OF DEPRECIATION)

	<u>2004</u>	<u>2003</u>
Land and land rights	2,919,124	2,894,548
Buildings	43,214,151	40,757,334
Equipment - Dwelling	621,588	610,662
Equipment - Administrative	1,117,072	1,066,810
Accumulated Depreciation	(29,247,804)	(27,755,721)
Construction in Progress	<u>70,266</u>	<u>70,266</u>
Total	18,694,397	17,643,899

The following reconciliation summarizes the change in Capital Assets.

TABLE 4

CHANGE IN CAPITAL ASSETS

	Business Type Activities
Beginning Balance	17,643,899
Additions	2,551,192
Retirements	8,610
Net of Depreciation	(8,610)
Depreciation	<u>(1,500,694)</u>
Ending Balance	18,694,397

This year's major additions are:

Business - Type Activities

YVP Equipment Transfer In	37,298
Capital Fund Program	1,100,438
New Development Construction	1,391,105
Equipment Purchases	<u>22,351</u>
Total Additions	2,551,192

ECONOMIC FACTORS

Significant economic factors affecting SHC are as follows:

- * Federal funding of the Department of Housing and Urban Development
- * Local labor contract, which affects salary, wages, and benefits
- * Local inflationary, recessionary, and employment trend, which can affect resident incomes and therefore the amount of rental income
- * Inflationary pressure on utility rates, supplies, insurance, and other costs

John C. DiPiero, P.C.

Certified Public Accountant

P. O. Box 378
Hemlock, Michigan 48626
Tel / Fax (989) 642-2092

Board of Commissioners
Saginaw Housing Commission
1803 Norman Street
P. O. Box 3225
Saginaw, Michigan 48605

Independent Auditor's Report

I have audited the financial statements listed in the Table of Contents of the Saginaw Housing Commission as of and for the year ended June 30, 2004. These financial statements are the responsibility of the Housing Commission's management. My responsibility is to express an opinion on the financial statements based on my audit.

I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audit provides a reasonable basis for my opinion.

As discussed in Note 1 to the financial statements, the Commission adopted Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements-and Management's Discussion and Analysis -for State and Local Governments* as of July 1, 2003. This results in a change in the format and content of the basic financial statements.

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Saginaw Housing Commission as of June 30, 2004, and the results of its operations and the cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

Required Supplemental Information

The Management's Discussion and Analysis and the required supplemental information are not a required part of the basic financial statements but is supplemental information required by the Governmental Auditing Standards Board. I have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplemental information. However, I did not audit the information and express no opinion on it.

The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U. S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in my opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

Combining Financial Statements

My audit was conducted for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying Financial Data Schedule is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in my opinion, if fairly stated in all material respects in relation to the financial statements taken as whole.

Certified Public Accountant

February 11, 2005

SAGINAW HOUSING COMMISSION
Combined Statement of Net Assets
June 30, 2004

ASSETS

C-3029

CURRENT ASSETS

Cash	\$ 1,570,157	
Cash- Restricted	94,936	
Accounts Receivable (net of allowance for doubtful account \$ 5,429)	22,938	
Accounts Receivable- Other	15,691	
Prepaid Expenses	280,115	
Inter Program due from	<u>141,730</u>	
 Total Current Assets		\$ 2,125,567

NON CURRENT ASSETS

Land	\$ 2,919,124	
Buildings	43,214,151	
Furniture, Equipment- Dwellings	621,588	
Furniture, Equipment- Administrative	1,117,072	
Leasehold Improvements	70,266	
Accumulated Depreciation	<u>(29,247,804)</u>	
 Total Non Current Assets		<u>18,694,397</u>

<u>TOTAL ASSETS</u>	\$ <u>20,819,964</u>
---------------------	----------------------

SAGINAW HOUSING COMMISSION
Combined Statements of Net Assets
June 30, 2004

LIABILITIES

C-3029

CURRENT LIABILITIES

Accounts Payable	\$	239,739	
Accrued Liabilities		229,977	
Accounts Payable- HUD		173,816	
Tenants Security Deposit		107,389	
Accounts Payable- Other Governments		23,525	
Deferred Revenue		8,244	
Other Current Liabilities		78,611	
Inter-Program due to		<u>141,730</u>	
<u>Total Current Liabilities</u>	\$		1,003,031

NONCURRENT LIABILITIES

Family Self Sufficiency Escrow	\$	107,689	
Compensated Absences-noncurrent		<u>175,400</u>	
<u>Total Noncurrent Liabilities</u>			<u>283,089</u>
<u>Total Liabilities</u>	\$		1,286,120

NET ASSETS:

Investment in Fixed Assets, net of related Debt	\$	18,694,397	
Unrestricted Net Assets		<u>839,447</u>	
<u>Total Net Assets</u>			<u>19,533,844</u>

<u>TOTAL LIABILITIES & NET ASSETS</u>	\$	<u>20,819,964</u>
---	----	-------------------

The Accompanying Notes are an Integral part of the Financial Statements

SAGINAW HOUSING COMMISSION
Combined Statement of Income, Expenses, and Changes in Net Assets
For the year ended June 30, 2004

REVENUE

Tenant Rental Revenue	\$ 1,282,341	
HUD Grants	9,803,341	
Interest Income	11,907	
Other Income	<u>129,355</u>	
<u>Total Revenue</u>		\$ 11,226,944

EXPENSES

Administrative	\$ 1,206,459	
Tenant Services	5,619	
Utility Expenses	583,144	
Ordinary Maintenance	1,014,867	
General Expenses	<u>1,122,898</u>	

<u>Total Expenses</u>	<u>3,932,987</u>
-----------------------	------------------

<u>Excess (Deficiency) of Revenues over Expenses</u>	\$ 7,293,957
--	--------------

OTHER SOURCES & (USES)

Extraordinary Maintenance	\$ (14,533)	
Casualty Losses	68,460	
Housing Assistance Payments	(4,893,549)	
Depreciation Expenses	<u>(1,500,694)</u>	

<u>Total Other Sources (Uses)</u>	<u>(6,340,316)</u>
-----------------------------------	--------------------

<u>Change in Net Assets</u>	\$ <u>953,641</u>
-----------------------------	-------------------

Total Net Assets- Beginning	18,516,127
-----------------------------	------------

Prior Period Adjustment: Correction of Prior Year Accruals & HUD Funding	<u>64,076</u>
---	---------------

Adjusted Beginning Balance	\$ <u>18,580,203</u>
----------------------------	----------------------

Total Net Assets- Ending	\$ <u>19,533,844</u>
--------------------------	----------------------

The Accompanying Notes are an Integral part of the Financial Statements

SAGINAW HOUSING COMMISSION
Combined Statement of Cash Flows
For the Year Ended June 30, 2004

<u>CASH FLOWS FROM OPERATING ACTIVITIES</u>	<u>Business Type Activities</u>
Receipts from Customers	\$ 1,269,395
Payments to Suppliers	(7,571,708)
Payments to Employees	(1,078,851)
HUD Grants	9,803,341
Other Receipts (Payments)	<u>141,262</u>
Net Cash Provided (Used) by Operating Activities	\$ <u>2,563,439</u>
<u>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</u>	
Purchases of Capital Assets	\$ <u>(2,551,192)</u>
Net Cash Provided (Used) from Financing Activities	\$ <u>(2,551,192)</u>
Net Increase (Decrease) in Cash and Cash Equivalents	\$ 12,247
Balance- Beginning of Year	<u>1,557,910</u>
Balance- End of Year	\$ <u>1,570,157</u>
<u>RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES</u>	
Net Profit or (Loss)	\$ 953,641
Adjustments to Reconcile Operating Income to Net Cash Provided (Used) by Operating Activities:	
Depreciation	1,500,694
Changes in Assets (Increase) Decrease:	
Receivables (Gross)	68,646
Prepaid Expenses	(98,828)
Interfund Due From	(27,152)
Changes in Liabilities Increase (Decrease):	
Accounts Payable	(16,434)
Accrued Liabilities	(55,196)
Accrued Compensated Absences	61,287
Security Deposits	727
Accounts Payable- Other Governments	(49,272)
Deferred Revenue	4,387
Family Self Sufficiency	193,787
Interfund Due To	<u>27,152</u>
Net Cash Provided by Operating Activities	\$ <u>2,563,439</u>

The Accompanying Notes are an Integral part of the Financial Statements

SAGINAW HOUSING COMMISSION
Notes to Financial Statements
June 30, 2004

NOTE 1: Summary of Significant Accounting Policies

Reporting Entity-

Saginaw Housing Commission, Saginaw, Michigan, (Commission) was created by ordinance of the city of Saginaw. The Commission signed and Annual Contributions Contract (ACC) with the U.S. Department of Housing and Urban Development (HUD). The ACC requires the Commission to provide safe, sanitary and decent housing for qualifying senior and low income families.

The Commission consists of the following as of June 30, 2004:

MI 6-1/5,7,8,10,11	Low rent program	628	units
MI 28-V005	Section 8 Vouchers	1141	units
MI 28-C	Shelter Plus Grant	51	units
Supportive Services, Homeless Grant, Capital Funds			

In determining the reporting entity, the manifestations of oversight, as defined by the Governmental Accounting Standards Board (GASB), Cod. sec 2100, were considered. The criteria include the following:

The nucleus of the financial reporting entity as defined by the Governmental Accounting Standards Board (GASB) Statement No. 14 is the "primary government". A fundamental characteristic of a primary government is that it is a fiscally independent entity. In evaluating how to define the financial reporting entity, management has considered all potential component units. A component unit is legally separate entity for which the primary government is financially accountable. The criterion of financial accountability are the ability of the primary government to impose its will upon the potential component unit. Based on the above criteria, the Commission has reported a component unit; the Component unit has been reported as a blending, added to the combined statement of net assets.

These criteria were considered in determining the reporting entity.

Basis of Presentation-

The accounts of the Commission are organized by the Catalog of Federal Domestic Awards (CFDA) numbers, in the Financial Data Schedule; each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self balancing accounts that comprise its assets, liabilities, net assets, revenues, and expenditures, or expenses, as appropriate. Commission resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled.

Notes to Financial Statements- continued

In June 1999, the Governmental Accounting Standards Board (GASB) approved Statement No. 34, Basic Financial Statements-Management's Discussion and Analysis- for State and Local Governments. Certain of the significant changes in the Statement include the following:

For the first time the financial statements include:

- A Management Discussion and Analysis (MD&A) section providing an analysis of the Housing Commission's financial position and results of operations.

- Financial Statements prepared using full accrual accounting for all the Commission's activities.

A change in the fund financial statements to focus on the major funds.

Proprietary Funds

Enterprise Funds- Enterprise Funds are used to account for operations (a) that are financed and operated in a manner similar to private business enterprises- where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, management control, accountability, or other purposes.

Basis of Accounting-

Basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

Proprietary Funds are accounted for using the accrual basis of accounting. The revenues are recognized when they are earned, and their expenses are recognized when they are incurred.

Prior to October 1, 1998, the Commission followed a basis of accounting consistent with the cognizant agency, the U. S. Department of Housing and Urban Development, HUD. Those practices differed from Generally Accepted Accounting Principals (GAAP); however, for all fiscal years beginning on or after October 1, 1998, HUD has required adherence to GAAP. Therefore, the current and future financial presentations will follow GAAP and the Financial Accounting Standards Board (FASB) pronouncements issued subsequent to November 30, 1989, provided they do not conflict with Governmental Accounting Standards Board, (GASB) pronouncements.

Budgetary data-

Formal budgetary integration is employed as a management control device during the year in proprietary type funds. Budgets for funds are adopted on a basis consistent with generally accepted accounting

Notes to Financial Statements- continued

principles (GAAP) for that fund type. The Commission adopts a budget annually, and amends the budgets as it feels necessary in order to maintain financial integrity.

Assets, Liabilities, and Net Assets-

Deposits & Investments

Deposits are stated at cost; the carrying amount of deposits is separately displayed on the balance sheet as cash and cash equivalents; investments are stated at cost which approximates market.

Cash Equivalents

Cash Equivalents represent investments purchased with a three month maturity or less; investments meeting this criteria are reclassified for financial statement purposes as cash.

Inventory

Inventory is valued at the lower of cost (First in, First out) or market. Inventory consist of expendable supplies held for consumption. The cost of supplies is recorded as an expenditure at the time the inventory is consumed.

Due To and Due From Other Funds

Interfund receivables and payables arise from inter-program transactions and are recorded by all funds affected in the period in which transactions are executed.

Fixed Assets

The accounting and reporting treatment applied to the fixed assets are determined by its measurement focus. All proprietary funds are accounted for on a cost of services or "capital maintenance" measurement focus. This means that all assets and all liabilities (whether current or non-current) associated with their activity are included on their balance sheets. Their reported fund equity (net total assets) is segregated into contributed capital and undesignated fund balance components. Proprietary fund type operating statements present increases (revenues) and decreases (expenses) in net total assets.

Depreciation of all exhaustible fixed assets used by proprietary funds is charged as an expense against their operations; depreciation has been provided over the estimated useful lives using the straight line method. The estimated useful lives are as follows:

Buildings and Improvements	27.5 years
Equipment	3-10 years

Notes to Financial Statements- continued

Compensated Absences

Sick leave and other compensated absences with similar characteristics have been accrued as a liability. The amount accrued was based on the probability that the Commission will compensate the employees for the benefits through cash payments as a condition of the employees' termination or retirement.

Note 2: Cash and Investments.

The composition of cash and investments are as follows:

Cash:

General Fund Checking Accounts	\$ 307,258
Petty Cash	250
Savings Accounts	<u>1,262,649</u>
Financial Statement Total	<u>\$ 1,570,157</u>

Generally the Commission classifies cash and investments with the following risk assumptions:

- 1) Insured or registered in the Commission's name.
- 2) Uninsured or unregistered, held by a broker in the Commission's name.
- 3) Uninsured or unregistered, held by a broker not in the Commission's name.

	<u>Categories</u>			<u>Carrying Amount</u>	<u>Market Value</u>
	<u>1</u>	<u>2</u>	<u>3</u>		
Cash:					
Checking A/C's	\$ 307,258	\$	\$	\$ 307,258	\$ 307,258
Petty Cash	250			250	250
Savings Account	<u>1,262,649</u>			<u>1,262,649</u>	<u>1262,649</u>
Total Cash	<u>\$ 1,570,157</u>	<u>\$</u>	<u>\$</u>	<u>\$ 1,570,157</u>	<u>\$1570,157</u>

In addition to the above analysis, the Commission has adopted an investment policy as required by P.A. 196 of 1997; Michigan Compiled Law 129.95.

Note 3: Prepaid Expenses.

Prepaid expenses consist of the following:

Prepaid Insurance	\$ 22,278
Material & Office Supplies	<u>257,837</u>
	<u>\$ 280,115</u>

Notes to Financial Statements- continued

Note 4: Fixed Asset Analysis.

The following represents the changes in fixed assets for the year:

	<u>Beginning of Year</u>	<u>Additions</u>	<u>Deletions</u>	<u>End of Year</u>
Land	\$ 2,894,548	\$ 24,576	\$	\$ 2,919,124
Buildings	40,757,334	2,456,817		43,214,151
Furniture & Equipment-Dwellings	610,662	19,537	8,611	621,588
Furniture & Equipment-Admin	1,066,810	50,262		1,117,072
Leasehold Improvements	<u>70,266</u>	<u></u>	<u></u>	<u>70,266</u>
	\$45,399,620	\$2,551,192	\$ 8,611	\$47,942,201
Less Accumulated Depreciation	<u>27,755,721</u>	<u>1,500,694</u>	<u>8,611</u>	<u>29,247,804</u>
	<u>\$17,643,899</u>	<u>\$1,050,498</u>	<u>\$</u>	<u>\$18,694,397</u>

Note 5: Accrued Liabilities

Accrued Liabilities consist of the following:

Accrued wages & payroll taxes	\$ 49,296
Account Payable to Revolving Fund	<u>180,681</u>
Financial Statement Total	<u>\$ 229,977</u>

Note 6: Retirement.

The Commission participates in the City of Saginaw pension plan. A percentage of all eligible employees wages is contributed to the fund. Statistical information and funding requirements are contained in a separate audit report provided by the City of Saginaw. Since the employees of the Commission are City employees, see general comment, the statistical information for the Commission assigned employees is unavailable as a separate unit, therefore, the entire City's pension data is contained in the City of Saginaw's annual report.

Note 7: Deferred Revenue

Deferred Revenue consists of the following:

Prepaid Tenant Rents	<u>\$ 8,244</u>
----------------------	-----------------

Note 8: Reclassifications.

Certain prior years' balances have been reclassified to conform to the current year's presentation.

Notes to Financial Statements- continued

Note 9: HUD Guaranteed Debt and Contributed Capital.

HUD guaranteed debt has been reclassified to Contributed Capital for all years ending after June 30, 1999. The reclassification is a result of all HUD programs converting from a basis of accounting prescribed by HUD other than Generally Accepted Accounting Principles (GAAP), to GAAP.

The following represents the original entries to contributed capital for HUD backed debt as a result of the above classification:

HUD Held Notes	\$ 5,550,360
HUD Guaranteed Bonds	3,175,000
FFB Notes	19,195

Note 10: Other Current Liabilities.

Other Current Liabilities consists of the following:

Pension Escrow	\$ 45,383
Health Insurance Escrow	<u>33,228</u>
	\$ <u>78,611</u>

The above escrows were ordered by HUD because of their position on post retirement benefits reimbursed to the City of Saginaw. HUD's instruction occurred in February 2004, the above represents the payments which would have gone to the City for retired employees health benefits and the under funded retired employees pension benefits. For further information on the above items, see the general comment contained in this report.

Note 11: Risk Management

The Commission is exposed to various risks of loss related to property loss, torts, error and omissions and employee injuries. The Commission purchases commercial insurance to cover the risks of these losses. The Commission had the following insurance in effect during the year:

<u>Types of Policies</u>	<u>Coverage's</u>
Property	\$ 46,649,200
General Liability	3,000,000
Automobile Liability	1,000,000
Dishonesty Bond	200,000
Worker's Compensation and other riders:	
Coverage's required by the State of Michigan	

Note 12: Combining Financial Data Schedules.

The totals in the combining Balance Sheet and Combining Income Statement represent unconsolidated totals. Under principals of consolidation, inter fund transactions would be eliminated; the totals in the combined statements follow the financial data schedule format recommended by the U.S. Department of Housing and Urban Development's Real Estate Assessment Center (REAC).

SAGINAW HOUSING COMMISSION
General Comment
June 30, 2004

The Saginaw Housing Commission (Commission) employees are Saginaw City employees. The Commission reimburses Saginaw City for all wages, payroll taxes and benefits such as health insurance and pension cost for both current and retired Commission employees.

This is a complicated issue which deserves some discussion. A question was raised concerning the use of public housing funds to reimburse the City of Saginaw for pension and health insurance liabilities for retired City employees who were assigned to work for the Commission, when those liabilities arose out of a collective bargaining agreement between the City of Saginaw and the unions, and are not incurred as a result of any contractual obligations between the Commission and the unions. HUD further stated in a later communication "these expenditures are inappropriate for the PHA to make because they are obligations incurred by the City of Saginaw, as agreed to in the collective bargaining agreement. They are not legitimate expenses of the PHA's."

The above position appears to be very definitive, but it is problematic; not only does this prohibition address the current year, it would also indicate those cost are ineligible in prior years. HUD's communication briefly touched upon the possibility of a court decision which may impact its position. The communication also failed to address the treatment of the amounts spent in the current year as well as past years.

In my opinion, this is equivalent to a legal fiction. The substance of the matter is whether these employees worked for the City, or for the Commission. In fact, they served the interest of the Commission; the Commission had direct supervision of the employees, the employees reported for work to the Commission, and the Commission's management had the right to terminate said employees. It seems too convenient for HUD to allege further obligations are not the responsibility of the Commission. In other areas, such as the Davis Bacon Act, HUD mandates that prevailing (local) wages and benefits be afforded contractor's employees, but when the prevailing (local) benefits call for post retirement benefits for Commission employees, HUD chooses to abandon those obligations.

This issue supersedes the current reporting period; post retirement benefits have been paid for retired Commission (City) employees for the past 30 years. In the years when HUD required the submission and approval of annual budgets, post retirement cost were included as a line item and approved by HUD. Office of Management and Budget (OMB) cost principle circulars A-87, A-110, and A-133 all address allowable cost issues; certain cost are unallowable unless specifically approved by the funding source; since budgets have been approved in the past including such cost, it would appear these are allowable cost.

Finally, a precedence has been set both in practice and in law. As stated above, Federal laws such as the Davis Bacon Act requires the recognition of prevailing wages and benefits in construction contracts, and, previously approved budgets specific allow the inclusion of post retirement benefits as an allowable cost. In addition, to disallow these cost currently or prospectively without addressing the prior periods would be inconsistent; such treatment could constitute a change in accounting principle which may require a qualified report.

The current financial statement presentation includes the post retirement benefits as it has in all prior years; no accrual has been made for any possible account receivable for the current or prior periods. The Commission's legal counsel has advised the Commission to discontinue paying these benefits, however, to fund an escrow account in the event a decision holds to continue such payments.

This comment is designed to inform the reader of the pending situation and the current treatment in the financial statements of post retirement cost. The ultimate resolution and treatment of the current and past cost is unknown at this time.

Saginaw Housing Commission

30-Jun-04

	Combining Balance Sheet	Low Rent 14.850	Section 8 Housing Choice Voucher Program 14.871	Youth Sports Program 14.863	Develop ment 14.850
Line Item #					
	ASSETS:				
	CURRENT ASSETS:				
	Cash:				
111	Cash - unrestricted	1,318,467	209,617		
112	Cash - restricted - modernization and development		-		
113	Cash - other restricted		94,936		
114	Cash - tenant security deposits				
100	Total cash	1,318,467	304,553	-	-
	Accounts and notes receivables:				
121	Accounts receivable - PHA projects				
122	Accounts receivable - HUD other projects		-	-	-
124	Accounts receivable - other government				
125	Accounts receivable - miscellaneous	9,338			
126	Accounts receivable- tenants - dwelling rents	27,879			
126. 1	Allowance for doubtful accounts - dwelling rents	(5,429)			
126. 2	Allowance for doubtful accounts - other				
127	Notes and mortgages receivable- current				
128	Fraud recovery				
128. 1	Allowance for doubtful accounts - fraud				
129	Accrued interest receivable				
120	Total receivables, net of allowances for doubtful accounts	31,788	-	-	-
	Current investments				
131	Investments - unrestricted		-		
132	Investments - restricted				
142	Prepaid expenses and other assets	22,278	-		
143	Inventories	257,837			
143. 1	Allowance for obsolete inventories				
144	Interprogram - due from	7,455	98,614	2,000	
146	Amounts to be provided				
150	TOTAL CURRENT ASSETS	1,637,825	403,167	2,000	-
	NONCURRENT ASSETS:				

	Fixed assets:				
161	Land	2,548,605	21,697		233,822
162	Buildings	36,708,102	212,550		3,495,123
163	Furniture, equipment & machinery - dwellings	599,957			20,384
164	Furniture, equipment & machinery - administration	1,012,291	92,240		10,622
165	Leasehold improvements				
166	Accumulated depreciation	(29,117,475)	(130,326)		(1)
160	Total fixed assets, net of accumulated depreciation	11,751,480	196,161	-	3,759,950
171	Notes and mortgages receivable - non-current				
172	Notes and mortgages receivable-non-current-past due				
174	Other assets				
175	Undistributed debits				
176	Investment in joint ventures				
180	TOTAL NONCURRENT ASSETS	11,751,480	196,161	-	3,759,950
190	TOTAL ASSETS	13,389,305	599,328	2,000	3,759,950
	LIABILITIES AND EQUITY:				
	LIABILITIES:				
	CURRENT LIABILITIES				
311	Bank overdraft				
312	Accounts payable ≤ 90 days	216,730	20,777	2,000	
313	Accounts payable > 90 days past due				
321	Accrued wage/payroll taxes payable	39,890	9,406		
322	Accrued compensated absences				
324	Accrued contingency liability				
325	Accrued interest payable				
331	Accounts payable - HUD PHA programs		173,816		
332	Accounts Payable - PHA Projects				
333	Accounts payable - other government	23,525			
341	Tenant security deposits	105,932			
342	Deferred revenues	3,919			
343	Current portion of Long-Term debt - capital projects				
344	Current portion of Long-Term debt - operating borrowings				
345	Other current liabilities	78,611	-		
346	Accrued liabilities - other	180,681	-		
347	Inter-program - due to	134,275	-	-	-
310	TOTAL CURRENT LIABILITIES	783,563	203,999	2,000	-
	NONCURRENT LIABILITIES:				
351	Long-term debt, net of current-				

	capital projects				
352	Long-term debt, net of current-operating borrowings				
353	Noncurrent liabilities- other	-	94,794		
354	Accrued Comp Absences-non current	175,400			
350	TOTAL NONCURRENT LIABILITIES	175,400	94,794	-	-
300	TOTAL LIABILITIES	958,963	298,793	2,000	-
	EQUITY:				
501	Investment in general fixed assets				
	Contributed Capital:				
502	Project notes (HUD)				
503	Long-term debt - HUD guaranteed	-			
504	Net HUD PHA contributions	-			-
505	Other HUD contributions			-	
507	Other contributions				
508	Total contributed capital	-	-	-	-
508.1	Invested in Capital Assets, Net of Related Debt	11,751,480	196,161	-	3,759,950
	Reserved fund balance:				
509	Reserved for operating activities				
510	Reserved for capital activities				
511	Total reserved fund balance	-	-	-	-
512	Undesignated fund balance/retained earnings	-	-		-
512.1	Unrestricted Net Assets	678,862	104,374		
513	TOTAL EQUITY	12,430,342	300,535	-	3,759,950
600	TOTAL LIABILITIES AND EQUITY	13,389,305	599,328	2,000	3,759,950

MI-006

Develop ment 14.850	Capital Projects Funds 14.872	Supportive Housing Program 14.238	Shelter Plus Care 14.238	ROSS Grant 14.870	Component Units	TOTAL
			5,427		36,646	1,570,157
						-
						94,936
						-
-	-	-	5,427	-	36,646	1,665,093

						-
-	6,353		-			6,353
						-
						9,338
				488		28,367
						(5,429)
						-
						-
						-
						-
						-
-	6,353	-	-	-	488	38,629
						-
						-
						-
		-				22,278
					-	257,837
						-
	-			-	33,661	141,730
						-
-	6,353	-	5,427	-	70,795	2,125,567
233,822					115,000	2,919,124
3,495,123	2,558,500				239,876	43,214,151
	-					
20,384					1,247	621,588
					-	
10,622	1,919					1,117,072
					70,266	70,266
(1)	(1)				(1)	(29,247,804)
3,759,950	2,560,418	-	-	-	426,388	18,694,397
						-
						-
						-
						-
						-
3,759,950	2,560,418	-	-	-	426,388	18,694,397
3,759,950	2,566,771	-	5,427	-	497,183	20,819,964
						-
				-	232	239,739
						-
						49,296

						-
						-
						-
						173,816
						23,525
					1,457	107,389
			4,325			8,244
						-
						-
					-	
						78,611
						180,681
-	6,353		1,102			141,730
-	6,353	-	5,427	-	1,689	1,003,031
						-
						-
					12,895	107,689
						175,400
-	-	-	-	-		
					12,895	283,089
-	6,353	-	5,427	-	14,584	1,286,120
						-
						-
						-
-	-					-
					-	-
						-
-	-	-	-	-	-	-
3,759,950	2,560,418				426,388	18,694,397
						-
						-
						-
-	-	-	-	-	-	-
-	-				-	-
		-			56,211	839,447
3,759,950	2,560,418	-	-	-	482,599	19,533,844
3,759,950	2,566,771	-	5,427	-	497,183	20,819,964

- 13 -
Saginaw Housing
Commission

30-Jun-04

	Combining Income Statement	Low Rent 14.850	Section 8 Housing Choice Voucher Program 14.871	Youth Sports Program 14.863	Develop ment 14.850
Line Item #					
	REVENUE:				
703	Net tenant rental revenue	1,274,267			
704	- Tenant revenue - other			-	-
705	- Total tenant revenue	1,274,267	-	-	-
706	HUD PHA grants	1,144,050	5,365,41	112,181	1,391,10

			0		5
708	Other government grants				
711	Investment income - unrestricted	10,901	814		
712	Mortgage interest income				
714	- Fraud recovery			-	-
715	- Other revenue	122,023		-	-
716	- Gain or loss on the sale of fixed assets	-	-	-	-
720	- Investment income - restricted		-	-	-
	- - - -		-	-	-
700	TOTAL REVENUE	2,551,241	5,366,224	112,181	1,391,105
			-		
	EXPENSES:				
	Administrative				
911	Administrative salaries	363,239	262,745		
912	Auditing fees	2,800	1,200		
913	Outside management fees	-			
914	Compensated absences	15,202			
915	Employee benefit contributions- administrative	192,321	131,372		
916	Other operating- administrative	178,166	28,888		
	Tenant services				
921	Tenant services - salaries	-			
922	Relocation costs				
923	Employee benefit contributions- tenant services	-			
924	Tenant services - other	5,619			
	Utilities				
931	Water	191,968			
932	Electricity	214,599			
933	Gas	173,460			
934	Fuel				
935	Labor				
937	Employee benefit contributions- utilities				
938	Other utilities expense	-			
	Ordinary maintenance & operation				
941	Ordinary maintenance and operations - labor	445,338			
942	Ordinary maintenance and operations - materials & other	12,615			
943	Ordinary maintenance and operations - contract costs	183,687	137,112		
945	Employee benefit contributions- ordinary maintenance	235,815			

	Protective services				
951	Protective services - labor				
952	Protective services- other contract costs				
953	Protective services - other				
955	Employee benefit contributions- protective services				
	General expenses				
961	Insurance premiums	134,473	14,145		
962	Other General Expenses	283,604	4,791	112,181	
963	Payments in lieu of taxes	52,733			
964	Bad debt - tenant rents	8,000			
965	Bad debt- mortgages				
966	Bad debt - other				
967	Interest expense				
968	Severance expense				
969	TOTAL OPERATING EXPENSES	2,693,639	580,253	112,181	-
970	EXCESS OPERATING REVENUE OVER OPERATING EXPENSES	(142,398)	4,785,971	-	1,391,105
971	Extraordinary maintenance	14,534			
972	Casualty losses - non-capitalized	(68,460)			
973	Housing assistance payments		4,731,345		
974	Depreciation expense	1,482,280	18,413		1
975	Fraud losses				
976	Capital outlays- governmental funds	-			
977	Debt principal payment- governmental funds				
978	Dwelling units rent expense				
900	TOTAL EXPENSES	4,121,993	5,330,011	112,181	1
	OTHER FINANCING SOURCES (USES)				
1001	Operating transfers in				
1002	Operating transfers out				
1003	Operating transfers from/to primary government				
1004	Operating transfers from/to component unit				
1005	Proceeds from notes, loans and bonds				
1006	Proceeds from property sales				
1007	Extra Ordinary Items (net gain/loss)				1
1010	TOTAL OTHER FINANCING SOURCES (USES)	-	-	-	1
1000	EXCESS (DEFICIENCY) OF TOTAL REVENUE OVER (UNDER) TOTAL EXPENSES	(1,570,752)	36,213	-	1,391,105

Capital Projects Fund 14.872	Supportive Housing Program 14.238	Shelter Plus Care 14.238	ROSS Grant 14.870	Component Units
				8,074
-	-	-	-	-
-	-	-	-	8,074
1,100,438	451,555	178,356	60,246	
				192
				-
-	-	-	-	
-	-	-	-	7,332
-	-	-	-	-
-	-	-	-	-
1,100,438	451,555	178,356	60,246	15,598
		-		7,529
				-
		-		3,541
	243	16,152		3,061
				2,609
				295
				213
				-
				300

				260
	451,312		60,246	1,153
	-			-
-	451,555	16,152	60,246	18,961
1,100,438	-	162,204	-	(3,363)
		162,204		
-	451,555	178,356	60,246	18,961
-	-	-	-	-
1,100,438	-	-	-	(3,363)

-14-

SAGINAW HOUSING COMMISSION
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2004

U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

Direct Programs:

	<u>Annual Program Expenditures</u>
* <u>CFDA 14.850 Public and Indian Housing</u>	
C-3029 Operating Subsidies	\$ <u>1,144,050</u>

* <u>CFDA 14.871 Housing Assistance Programs</u>		
C-3099V Section 8 Housing Choice Vouchers		\$ <u>5,365,410</u>
* <u>CFDA 14.235 Supportive Housing Program</u>		
C-3029 Special Needs		\$ <u>451,555</u>
* <u>CFDA 14.863 Youth Sports Program</u>		
C-3029 Youth Violence		\$ <u>112,181</u>
* <u>CFDA 14.238 Shelter Plus Care</u>		
C-3029 Shelter Plus Care Program		\$ <u>178,356</u>
* <u>CFDA 14.174 Housing Development Grant</u>		
C-3029 Housing Development Grant		\$ <u>1,391,105</u>
* <u>CFDA 14.872 Public Housing Capital Fund Program</u>		
C-3029 Capital Fund Program		\$ <u>1,100,438</u>
* <u>CFDA 14.854 Resident Opportunity Supportive Service</u>		
C-3029 ROSS Grant		\$ <u>60,246</u>
		\$ <u>9,803,341</u>

*Connotes Major Program Category

See Accompanying Notes to Schedule of Federal Awards.

-15-

Notes to Federal Awards Schedule:

Significant Account Policies

The accounting policies of the Commission conform to generally accepted accounting principles as applicable to governmental proprietary funds. The financial statements contained in the Commission's annual audit report are prepared on the accrual basis of accounting; revenues are recognized when earned, expenses are recorded when the related services or product are received.

Risk management

The Commission is exposed to various risks of loss related to property loss, torts, error and omissions and employee injuries. The Commission purchases commercial insurance to cover the risks of these losses. The Commission had the following insurance in effect during the year:

<u>Types of Policies</u>	<u>Coverage's</u>
Property	\$ 46,649,200
General Liability	3,000,000
Automobile Liability	1,000,000
Dishonesty Bond	200,000
Worker's Compensation and other riders: Coverage's required by the State of Michigan	

-16-

SAGINAW HOUSING COMMISSION
Status of Prior Audit Findings
June 30, 2004

The prior audit of the Saginaw Housing Commission for the period ended June 30, 2004, contained five audit findings; the following represents the corrective action taken by the Commission:

- Finding 1: Employee Bonus Incorrectly Reported- the employee involved is no longer with the Commission; no other misreported bonus was noted.
- Finding 2: Unreported Use of Company Vehicle- the employee involved is no longer with the Commission; no other misreported vehicle was noted.
- Finding 3: Overpayment of Payment in Lieu of Taxes (PILOT)- the Commission resolved this finding by reducing the current and past year's PILOT payment by the amount of the overpayment; this appears to be resolved.
- Finding 4: Unauthorized Personal Service Contract- the employee involved in no longer with the Commission; HUD agreed that the cost to pursue the payments made to the former employee would exceed the amount which could be recovered and further agreed that if the Commission repaid the amount to the Low Rent Program from non federal sources, HUD would consider this finding closed. The Commission repaid the Low Rent Program from non federal sources upon notification from HUD. This finding is closed.
- Finding 5: Unauthorized Land Purchase- HUD has instructed the Commission to sell the land; however, some questions have arose concerning bona fide purchasers- this is a repeat finding.

-17-

SAGINAW HOUSING COMMISSION
Report on Compliance Applicable with Requirements to
Each Major Program and on Internal Control over
Compliance in Accordance with OMB Circular A-133
June 30, 2004

Compliance

I have audited the compliance of Saginaw Housing Commission with the types of compliance requirements described in the U. S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 2004. Saginaw Housing Commission's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of Saginaw Housing Commission's management. My responsibility is to express an opinion on

Saginaw Housing Commission's compliance based on my audit.

I conducted my audit of compliance in accordance with generally accepted auditing standards; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that I plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Saginaw Housing Commission's compliance with those requirements and performing such other procedures as I considered necessary in the circumstances. I believe that my audit provides a reasonable basis for my opinion. My audit does not provide a legal determination of Saginaw Housing Commission's compliance with those requirements.

As described in the following findings in the accompanying schedule of findings and questioned costs, the Commission failed to comply with one or more of the following compliance requirements: Activities allowed or unallowed, Allowable Costs/cost Principles, Cash Management, Davis-Bacon Act, Eligibility, Procurement, Reporting, or other compliance matters. Compliance with such requirements is necessary, in my opinion, for the Commission to comply with the requirements applicable to that program. The following programs, findings and compliance matters are detailed in the schedule of findings and questioned cost:

<u>Finding</u>	<u>Audit Number</u>	<u>Compliance Requirements</u>
Low Rent Public Housing:		
Unauthorized Land Acquisition	03-03	Allowable Costs/cost Principles
Tenant Accounting Discrepancies	04-01	Eligibility
Section 8 Housing Choice Vouchers:		
Tenant Accounting Discrepancies	04-02	Eligibility

-18-

In my opinion, except for the noncompliance described in the preceding paragraph, the Commission complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2004.

Internal Control over Compliance

The management of Saginaw Housing Commission entity is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing my audit, I considered Saginaw Housing

Commission's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine my auditing procedures for the purpose of expressing my opinion on compliance and to test and report on the internal control over compliance in accordance with OMB Circular A-133.

I noted certain matters involving the internal control over compliance and its operation that I considered to be reportable conditions. Reportable conditions involve matters coming to my attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in my judgement, could adversely affect the Commission's ability to administer a major federal program in accordance with the applicable requirements of laws, regulations, contracts, and grants. Reportable conditions are described in the accompanying schedule of findings and questioned costs as referred to above.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with the applicable requirements of laws, regulations, contracts, and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. My consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, I believe that none of the reportable conditions described above is a material weakness.

This report is intended for the information of management, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Certified Public Accountant

February 11, 2005

-19-

SAGINAW HOUSING COMMISSION
Report on Compliance and on Internal Control over
Financial Reporting Based on an Audit of Financial
Statements Performed in Accordance with
Government Auditing Standards
June 30, 2004

I have audited the financial statements of Saginaw Housing Commission, Saginaw, Michigan, as of and for the year ended June 30, 2004, and have issued my report

thereon dated February 11, 2005. I conducted my audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether Saginaw Housing Commission's financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, I do not express such an opinion. The results of my tests disclosed instances of noncompliance that are required to be reported under Government Auditing Standards; see the findings and questioned cost section of this audit report.

Internal Control Over Financial Reporting

In planning and performing my audit, I considered Saginaw Housing Commission's internal control over financial reporting in order to determine my auditing procedures for the purpose of expressing my opinion on the financial statements and not to provide assurance on the internal control over financial reporting. My consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. I noted no matters involving the internal control over financial reporting and its operation that I consider to be material weaknesses.

This report is intended for the information of management and federal awarding agencies and pass-through entities. However, this report is a matter of public record and its distribution is not limited.

Certified Public Accountant

February 11, 2005

Summary of Auditor's Results:

Programs:

	<u>Major Program</u>	<u>Non Major Program</u>
Low income Public Housing	X	
Housing Assistance Programs	X	
Supportive Housing Program	X	
Capital Projects Funds	X	
Housing Development Grant	X	
Service Coordinator/Youth Violence	X	
Shelter Plus Care	X	
Resident Opportunity Supportive Services	X	

Opinions:

General Purpose Financial Statements-

Unqualified

Material weakness(es) noted	_____ Yes	_____ X No
Reportable condition(s) noted	_____ Yes	_____ X No
Non Compliance material to financial statements noted	_____ Yes	_____ X No

Report on compliance for Federal programs-

Qualified

Material weakness(es) noted	_____ Yes	_____ X No
Reportable condition(s) noted	_____ X Yes	_____ No
Non Compliance material to financial statements noted	_____ Yes	_____ X No

Thresholds:

Dollar limit used to determine type A & B programs- \$ 300,000

The Auditee did qualify as a low risk auditee.

<u>Name of Federal Program</u>	<u>Major Program</u>	<u>Questioned Costs</u>	<u>Audit Finding Number</u>
Public and Indian Housing	Yes	None	04-1
		613,000	03-3
Housing Assistance Programs	Yes	None	04-2
Supportive Housing Program	Yes	None	N/A
Capital Fund Program	Yes	None	N/A
Development Grant	Yes	None	N/A
Youth Sports Program	Yes	None	N/A
Resident Opportunity Supportive Services	Yes	None	N/A
Shelter Plus Care	Yes	None	N/A

Schedule of Findings, Recommendations and Replies
June 30, 2004

The following findings of the Saginaw Housing Commission, for the year ended June 30, 2004, was discussed with the Executive Director, Mr. Duane L. Walker, in an exit interview conducted February 11, 2005.

Finding 03-3 Unauthorized Land Acquisition

The Commission purchased a track of land for future housing development for \$ 613,000 using Low Rent reserves. The reserves represent federal dollars and therefore fall under the purview of HUD's authority. The Commission was required under the Annual Contributions Contract (ACC) to obtain permission from HUD to acquire the land; the Commission failed to obtain permission, therefore, the acquisition is a questioned cost. This is a repeat finding.

Recommendation

The acquisition of the property in question using Public Housing operating reserves required consultation and authorization from HUD according to the ACC. The Contract has many provisions involving the continued funding of the Commission; violations of the Contract could result in a loss of future funding.

I recommend the Commission observe all the provisions of the ACC; the Commission must discuss the acquisition of this parcel with HUD. The purchase could be approved as planned or HUD may require the Commission sell the land.

Reply

Pursuant to guidance from HUD's Detroit Field Office, the Saginaw Housing Commission is proceeding with efforts to dispose of the aforementioned properties.

The following is a summary of the status of the SHC's efforts in that regard:

Over the past month, meetings have taken place with local commercial realtors in an effort to choose a realtor to market the property. Saginaw has few realtors specializing in commercial property. Two such realtors have met with representatives of the Saginaw Housing Commission and offered their views on the Fairgrounds highest and best view from a marketing perspective and what must be done to promote the sale. The Commission will employ a company to appraise the property that is very familiar with the mid-Michigan area and, in particular, Saginaw County and the City of Saginaw. Requests for proposals from qualified appraisers are currently being processed and reviewed.

Recapping the meeting with the Brandle Morford Associates group of commercial realtors on Friday, February 25, 2005, their representatives suggested that the property might be best marketed in its entirety for possible residential use and/or with some commercial shopping development envisioned. Brandle representatives also suggested a professional appraisal. It was thought by Brandle representatives that an appraisal might take approximately 45 -60 days to complete. In addition, Brandle would do a market analysis to determine comparable sales in the area and the highest and best use of the property. It was pointed out by Brandle that there are only a few parcels the size of the Fairgrounds (approximately 55 acres) in the metropolitan Saginaw area.

A meeting with the Miller Group of Saginaw, Inc. representatives was held on Friday, March 4, 2005 and resulted in a discussion similar to the talks with Brandle. The Miller Group also believes that the property should be marketed as an entire parcel and that before marketing begins, a professional appraisal be done. Miller Group representatives provided a likely range in the value of the property suggesting that with the local City of Saginaw politics in government, that at the present time developers are proceeding with caution with property development in the City of Saginaw. The Miller Group believes that it may take as much as 1-2 years to get the best possible price for the Fairgrounds.

Upon the completion of selection of an appraiser and receiving the results of the appraisal, the agency will move forward with the procurement of a commercial realtor to list and market the property for sale at the fair market price established by the appraisal.

Finding 04-1 Tenant Accounting Discrepancies- Low Rent Program

A review of 17 files revealed the following discrepancies:

4 files lacked adequate third party income verification

Recommendation

The Annual Contributions Contract and HUD notices specify the requirements concerning leasing and continued occupancy; the above discrepancies represent minor infractions and do not indicate a breakdown in internal control, but rather a need to improve upon the existing system.

I recommend the Commission continue to improve the existing procedures concerning tenant leasing and continued occupancy.

Reply

Finding: 4 files lacked adequate third party income verification

Remedy: The Housing Commission has obtained access and is now utilizing upfront verification systems to verify incomes. These systems include EIV, TASS, and the WORK Number.

As a result of the most recent RIM review, the agency has implemented a quality control process that requires supervisory review of tenant files to decrease the incidence of errors and/or omissions in the overall annual review process.

Upon notification from the auditor identifying the files in which the findings occurred, SHC staff will make the appropriate corrections.

Finding 04-2 Tenant Accounting Discrepancies- Section 8 Housing Choice Vouchers

23 files were reviewed and the following discrepancies were noted:

11 files lacked proper third party income verification

3 files used the wrong utility allowances

Recommendation

The Annual Contributions Contract and HUD notices specify the requirements concerning leasing and continued occupancy.

The Commission has experienced several key employee retirements, the result is that the Section 8 Housing Choice Program has lost a supervisor and long term employee; the above discrepancies may be a result of a lack of experienced personnel in the program.

I recommend the Commission follow all HUD requirements concerning tenant leasing and continued occupancy.

Reply

Finding: 11 Files lacked proper third party income verification

Finding: 3 files used the wrong utility allowances

Remedy: As indicated in the remedy stated for the Low - rent program, the Housing Commission has obtained access and is now utilizing upfront verification systems to verify incomes. These systems include EIV, TASS, and the WORK Number.

As a result of the most recent RIM review, the agency has implemented a quality control process that requires supervisory review of tenant files to decrease the incidence of errors and/or omissions in the overall annual review process.

Upon notification from the auditor identifying the files in which the findings occurred, SHC staff will make the appropriate corrections.